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CORE CONCEPT OF

FINANCIAL ACCOUNTING

1. What is Financial Accounting? Briefly explain.
2. Point out the accounting concepts?
3. What do you understand by Cost Accounting? Please explain.
4. Illustrate the Management Accounting?
5. Point out the Depreciation Accounting.
6. What do you mean by Straight Line Method?
7. Briefly illustrate the Written Down Value Method?

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BRANCHES OF ACCOUNTING

The branches of accounting are;

8. Financial Accounting

The accounting system concerned only with the financial state of affairs and financial results of operations is known as Financial Accounting. It is the original from of accounting. It is mainly concerned with the preparation of financial statements for the use of outsiders like creditors, debenture holders, investors and financial institutions. The financial statements i.e., the profit and loss account and the balance sheet, show them the manner in which operations of the business have been conducted during a specified period.

9. Cost Accounting

In view of the limitations of financial accounting in respect of information relating to the cost of individual products, cost accounting was developed. It is that branch of accounting which is concerned with the accumulation and assignment of historical costs to units of product and department, primarily for the purpose of valuation of stock and measurement of profits. Cost accounting seeks to ascertain the cost of unit produced and sold or the services rendered by the business unit with a view to exercising control over these costs to assess profitability and efficiency of the enterprise. It generally relates to the future and involves an estimation of future costs to be incurred. The process of cost accounting based on the data provided by the financial accounting.

10. Management Accounting

It is an accounting for the management i.e., accounting which provides necessary information to the management for discharging its functions. According to the Anglo-American Council on productivity, "Management accounting is the presentation of accounting information is such a way as to assist management in the creation of policy and the day-to-day operation of an undertaking." It covers all arrangements and combinations or adjustments of the orthodox information to provide the Chief Executive with the information from which he can control the business e.g. Information about funds, costs, profits etc. Management accounting is not only confined to the area of cost accounting but also covers other areas (such as capital expenditure decisions, capital structure decisions, and dividend decisions) as well.

<u>Depreciation Accounting (Straight line and Written Down Value)</u>

Definition of Depreciation "Small wear and tear of a machinery during processing time in a given financial year is known as depreciation "

Two type of Depreciation i.e

1) Straight Line Method: under this method ,total depreciable amount is spread equally over the useful life of the asset. It result into equal amount of depreciation in each of the year.

1. Depreciation is calculated on original cost of the asset.
2. Amount of depreciation remains same during the useful life of the asset.
3. Book value of the asset can be reduced to zero or to its scrap value.
4. Not applicable for income tax purposes.
5. In the initial years, total charge (depreciation plus repairs) is less but in the later years, total charge increases as repairs increase while depreciation remains the same.
6. Suitable for assets which give almost equal utility in terms of productivity during the entire useful life of the assets like Trademarks, Copyrights etc.

2) Written Down Value Method: under this method , depreciation is charged on the opening net value of the asset in each of the year; there for, it result into reducing amount of depreciation year after year, till the end of useful life of the asset . This is also called as reducing balance method of charging depreciation

1. Depreciation is calculated on written down value of the asset.
2. Amount of depreciation keeps on reducing every year.
3. Book value never gets reduced to zero.

4. Applicable for income tax purposes.

5. The total charge remains almost the same as in the initial years repairs are less and depreciation is high while in later years, repairs increase and depreciation decreases.

6. This method is suitable for assets which gives higher utility in the initial years like Machinery etc..

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